
**Financial Institutions &
Insurance Committee**

HB 2553

Brief Description: Regulating service contracts and guarantee protection products.

Sponsors: Representatives Kirby and Morrell; by request of Insurance Commissioner.

Brief Summary of Bill

- Defines terms, including "guarantee protection product."
- Establishes registration, financial, and record-keeping requirements for guarantee protection product providers.
- Expands the service contract chapter to include motor vehicle service contracts.
- Repeals the motor vehicle service contracts.

Hearing Date: 1/17/06

Staff: Jon Hedegard (786-7127).

Background:

Insurance and insurance transactions are governed by Title 48 RCW of the Insurance Code. Among other things, this title requires: (1) that insurers meet certain financial requirements; and (2) that agents, solicitors, and brokers of insurance comply with specified licensing standards. Financial and criminal penalties may result from noncompliance.

Certain transactions that fall within the definition of insurance have been addressed by exemption from Title 48 RCW or the creation of a specific regulatory structure. Entities regulated under these chapters may not be required to comply with the same capitalization and reserve requirements, reporting and solvency oversight, and claims handling practices as are required of an insurer selling a traditional insurance product.

In 1990, the Legislature created Chapter 48.96 RCW to regulate motor vehicle service contracts. A motor vehicle service provider is required to have a reimbursement insurance policy that covers all obligations and liabilities incurred by the motor vehicle service contracts issued by the provider.

In 1999, Chapter 48.110 RCW was created for the regulation of service contracts. A service contract provider may choose one of the following options to ensure that all obligations and liabilities are paid:

- insure their service contracts with a reimbursement insurance policy;
- maintain a reserve account that includes a portion of the gross consideration received for all service contracts and give the Insurance Commissioner a financial security deposit; or
- maintain or have the parent company maintain a net worth or stockholder's equity of \$100 million.

Summary of Bill:

Chapter 48.110 RCW, the chapter regulating service contracts, is expanded to include motor vehicle service contracts. Definitions are created including a definition of a guarantee protection product.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which the bill is passed..